



February 16, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N W
Washington, DC 20551

Re: Proposed Rule on Debit Interchange Fees and Routing, Docket No. R-1404

Dear Ms. Johnson:

I am writing on behalf of the Pennsylvania State Employees Credit Union (PSECU) regarding the Dodd-Frank Act (Section 1075). The Dodd-Frank Act (Act) has the potential to have a significant negative impact on PSECU's operating costs and the service benefits we offer to our membership.

PSECU is a \$3.5 billion dollar credit union that does not provide services via the traditional branch office structure. Our primary delivery channel of products and services is through online access, which enables us to serve 375,000 members throughout Pennsylvania, nationally and internationally. We operate 2 conventional branch locations and 12 electronic service centers on university campuses in Pennsylvania. We do not dispense cash at our physical locations. Therefore, PSECU's debit card is the primary access device used by our membership to make purchases, and to get cash via ATMs and at the point of sale.

Network Exclusivity

Alternative 1

PSECU currently participates in two unaffiliated debit access networks (one signature network and one PIN network) and offers two types of debit cards. The first card type that makes up the majority of the debit portfolio (350,000 cards) is functional on both the signature and PIN networks. The second card type is only functional on the PIN network (28,000 cards) and is issued on Custodial accounts, accounts of the under-banked, and to university students as part of "one card" programs under contract with five universities.

In order to meet the network exclusivity provisions of the Act under Alternative 1, PSECU would discontinue its PIN network only programs and would re-issue its dual network debit card to its account holders. This action would be the least costly for PSECU given the small number of cards that would be replaced.

Pennsylvania State Employees Credit Union

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The majority of card issuers in the market place already meet the provisions of Alternative 1. Therefore, PSECU recommends the adoption of Alternative 1.

Alternative 2

Based on the current make up of PSECU's debit portfolio described above, the adoption of Alternative 2 would be more costly to PSECU in terms of card reissuance, re-disclosure of terms and conditions, staff training, cardholder training, marketing and general administration of the portfolio. Portfolio administration would become very problematic from a fraud perspective. For example, a fraud compromise in one signature network and not the other would require "card deactivation" that would impact both signature networks to protect the account holder from the loss of funds. Loss of access to both signature networks not only impacts consumer ability to complete a transaction, but the reputation of the financial institution as well. As it stands today, most small financial institutions are struggling with the fight against fraud. To complicate the process with unnecessary network exclusivity requirements would exacerbate the problem further, not to mention the potential impact of other unintended consequences.

PSECU strongly discourages the adoption of Alternative 2 as the network exclusivity provision.

Exemption from Interchange Regulations

Although PSECU is currently exempt from the interchange fee regulations as an issuer under \$10 billion in assets, we expect our interchange fee revenue to be impacted in two ways:

1. The proposed two-tier structure of one major card association does not guarantee the preservation of existing interchange fee levels for issuers under \$10 billion in assets. Regardless of the two-tier structure, it has been stated, "The routing provisions will impact the market place, and as the market evolves, the interchange structure may need to evolve with it." In other words, the structure as PSECU knows it today will most likely result in lower interchange fee income.
2. The merchant routing provision of the Act enables merchants to block consumer usage of signature debit transactions in favor of PIN debit transactions. Implementation of the provision will reduce PSECU's interchange fee income by \$0.10 per transaction or approximately \$2.2 million dollars per year. Coupled with the eventual outcome in number 1 above, all issuers under \$10 billion in assets will be impacted by the provision.

Consumer Impact:

PSECU competes in the financial services industry by striving to offer the strongest value return in the marketplace. A perfect example is our credit card program which boasts a single rate for purchases and cash advances (9.9% Annual Percentage Rate), only one fee (up to a \$20 late fee), and a low balance transfer rate (currently 3.9% APR with no balance transfer fee) which enables us to compete against the largest institutions in the industry. As a result of our one rate one fee strategy, PSECU's credit card portfolio is the fifth largest in the credit union industry and 34th largest in the country.

Similarly, we offer a very strong value return on our debit card which is supported by the interchange revenue from the card. As of December 31, 2010 PSECU returned to its members \$2.9 million in ATM surcharge rebates, administered a fleet of 140 ATMs and administered a surcharge free ATM alliance at no cost to the 402 participating credit unions, most of which are too small to own and operate ATMs of their own. Considering the cost of our surcharge rebate program and the cost to administer our ATM fleet and surcharge free alliance, the impact of the loss of \$2.2 million or more in interchange fee revenue on these member benefits would likely be significant.


Regarding ATMs, PSECU's ATM service operates as a loss leader due to the saturation of machines in the market place and declining transaction volumes.

PSECU does not agree that ATM transactions should be part of this Act.

The Dodd-Frank Act (Section 1075) directly threatens PSECU's financial ability to continue a high value return to our members and may ultimately impact our ability to compete with larger institutions. The Act gives no consideration to existing conditions such as an institution's strategic initiatives, contractual arrangements on their card programs or voluntary exclusivity arrangements with debit networks. Therefore, PSECU requests that the Federal Reserve Board consider delaying implementation of the Act until the effects can be studied in greater detail or phasing in requirements to facilitate compliance and minimize disruption to the payments industry.

I appreciate your consideration of our concerns as you move forward in the rulemaking process.

Sincerely,


Gregory A. Smith